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ABSTRACT

Although there has been a dramatic increase in child care funding since the passage of the 1996 Personal Responsibility and Work Opportunity Reconciliation Act, some activists and members of Congress have argued that there remains a child care crisis. This paper asserts that many of the arguments concerning welfare and child care are outdated or misleading and presents evidence to discredit six persistent myths about child care in the United States. The myths concern the percentage of needy children receiving child care assistance, trends in government child care funding over the past decade, the need for appropriated new funds and increased costs for taxpayers in order to increase child care spending, whether states set excessively strict eligibility standards for child care subsidies, the amount of time eligible poor families wait for child care assistance, and the size of child care subsidies in comparison to child care costs. The report concludes by asserting that if welfare reform is to continue and expand, additional funding for child care must be provided but that most of this funding should come from savings that reform has generated in the Temporary Assistance for Needy Families (TANF) program rather than from new congressional appropriations. Appended is information on funding sources of the Child Care and Development Fund (CCDF), a breakdown of TANF and CCDF child care spending from 1992 to 2002, and classification of TANF and CCDF spending. (Contains 31 footnotes.) (KB)

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Heritage Foundation
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May 2, 2003

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The Heritage Foundation
Backgrounder
Executive Summary

No. 1649 May 2, 2003

THE MYTH OF A CHILD CARE CRISIS

BRIAN M. RIEDL

In recent years, welfare and child care policy have become linked. The failed Aid to Families with Dependent Children program was replaced in 1996 with the new Temporary Assistance for Needy Families (TANF) program, which requires welfare recipients to work or prepare for work in order to receive public assistance. These working parents often need financial assistance to keep their children in day care during the workday.

Congress anticipated the new demand for child care by concurrently implementing policies that (1) increased federal and state child care spending from $3.2 billion in 1996 to $10.5 billion in 2002, and (2) increased the number of children receiving subsidized child care from 2 million to 3.6 million. Despite these massive funding and enrollment increases, however, some activists and Members of Congress are still lamenting an alleged "child care crisis." Many of their arguments—such as the following six myths—are outdated or misleading.

MYTH: Just 12 percent of all needy children receive child care assistance.

FACT: Estimates based on a more realistic calculation range from 80 percent to 90 percent.

A 2000 study by the Department of Health and Human Services (HHS) concluded that only 12 percent of needy children receive federal child care subsidies. However, the study contained several errors that render its conclusions worthless. In defining "needy children" who lack child care assistance, the study included families of four earning as much as $64,000 per year, schoolchildren, children whose parents were not working more than one hour per month, and children cared for by relatives and friends. The count excluded children receiving child care assistance through TANF, the Social Services Block Grant, and Head Start. A more realistic estimate is that some 80 percent to 90 percent of needy children either receive subsidized child care assistance or use some type of informal care.

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MYTH: Government child care funding has been flat over the past decade.

FACT: Government child care funding increased 388 percent from 1992 to 2002.

Most government child care spending comes through two programs: the Child Care and Development Fund (CCDF) and TANF. Child care spend-

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ing in these two programs (including their predecessors) rose 388 percent from $2.2 billion during 1992 to $10.5 billion in 2002. Several additional federal and state programs either subsidize child care directly or reduce the need for subsidized child care programs. Programs such as Head Start spent an additional $16 billion for child care and related services in 2002, most of which was geared to lower-income families.

MYTH: The only way to increase child care spending is for Congress to appropriate new funds and increase costs for the taxpayer.

FACT: Child care spending has increased dramatically since 1996, and two-thirds of new child care spending has come from savings in the TANF program due to welfare reform.

Experience demonstrates that most increased child care spending comes not from new congressional appropriations, but from the fiscal savings generated by welfare reform itself. Of the $7.3 billion increase in annual child care funding since 1996, only $2.3 billion resulted from new spending appropriated by Congress. The remaining $5.0 billion came from TANF savings that had been redirected to child care subsidies. First the states incorporated work requirements into welfare reform that moved millions of recipients into jobs and saved billions of dollars in TANF payments. Then they redirected much of these savings into child care. Strengthening TANF work requirements in 2003 should reduce caseloads further and free more TANF funds for child care.

MYTH: States use their discretion to set excessively strict eligibility standards, excluding millions of poor families from child care subsidies.

FACT: The average state covers working families with incomes up to 192 percent of the federal poverty level.

In 2003, the average state sets an upper eligibility standard at 192 percent of the federal poverty level, or $29,299 for a family of three, and 21 states grant eligibility to families with incomes at 200 percent of the federal poverty level or higher. Non–income-related child care eligibility requirements are designed inclusively as well.

MYTH: Eligible poor families face lengthy waiting lists for child care assistance.

FACT: Nearly every eligible applicant with an income below the federal poverty line receives assistance.

Two separate analyses examined caseloads in 1999 and 2001 and found that sampled states served 100 percent of eligible child care assistance applicants who were on or had just left TANF. In 2003, 29 states are going beyond serving all eligible TANF applicants by also serving 100 percent of all eligible *non*-TANF families who apply for child care assistance. The remaining states often have surplus CCDF and TANF funds that could be shifted to alleviate any child care funding shortage.

MYTH: Child care subsidies are too small to make child care affordable.

FACT: The typical subsidized family at the poverty level pays just $11 per week for their child's care.

A 1999 HHS study reported that families in poverty with preschool children spend 18 percent of their income on child care, but was based on data from 1993 when child care funding was one-fifth its current level. Current studies reveal that in 2003, the weekly co-payment for an average three-person family with an income at the federal poverty line is just $11 per child, or 4 percent of the family's gross income. To pay the child's $126 weekly bill to the child care facility, the local CCDF-funded program funds the other $115. It should come as no surprise that client families do not consider these co-payments a significant financial burden.

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THE MYTH OF A CHILD CARE CRISIS

BRIAN M. RIEDL[1]

In recent years, welfare and child care policy have become linked. The 1996 Personal Responsibility and Work Opportunity Reconciliation Act[2] replaced the failed Aid to Families with Dependent Children program with the new Temporary Assistance for Needy Families (TANF) program. TANF requires welfare recipients to work or prepare for work in order to receive public assistance. These working parents often need financial assistance to place their children in child care during the workday.

The positive effects of welfare reform have been dramatic. Welfare caseloads have been cut in half. The employment of the most disadvantaged single mothers has increased by 50 percent to 100 percent. As dependence has decreased and employment has grown, child poverty has dropped substantially. After remaining unchanged for a quarter century, the poverty rate of single mothers has dropped by a third and is now at the lowest point in U.S. history.

The expansion of child care assistance has been an important element of welfare reform. Since 1996, government spending on child care has more than tripled. Most states now have child care assistance programs that aid families with incomes well above the poverty level.

Most of the increase in child care spending has been financed by savings generated by the decline of conventional welfare caseloads rather than by new congressional appropriations. As welfare caseloads fall, less money is spent on old-style monthly welfare checks; the unspent funds have been redirected into expanded child care assistance.

Despite the dramatic increase in child care funding over the past six years, some activists and Members of Congress are still lamenting an alleged "child care crisis." However, many of the arguments concerning welfare and child care are outdated or

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1. This is an updated version of the author's "Six Myths About Child Care," Heritage Foundation *Backgrounder* No. 1588, September 19, 2002. The author thanks Robert Rector, Senior Research Fellow at The Heritage Foundation, for his helpful comments and suggestions throughout the researching and writing of this paper.
2. Public Law 104–193.

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misleading. This paper debunks six persistent myths about child care in America.

MYTH: Just 12 percent of all needy children receive child care assistance.

FACT: A more realistic calculation excluding middle-class families, schoolchildren, and children with non-working parents produces estimates ranging from 80 percent to 90 percent.

The statistic most frequently quoted by those claiming a "child care crisis" comes from a U.S. Department of Health and Human Services (HHS) report issued by the Clinton Administration in December 2000. This report claimed that only 12 percent of children needing assistance received federal child care aid in 1999.[3] This implies that the other 88 percent of families are impoverished and unable to afford the child care they desperately need. Then-HHS Secretary Donna Shalala said the report "confirms that working families still do not have adequate access to safe and affordable child care for their children."[4]

There were two huge errors in the Clinton Administration's report. First, it vastly overestimated the number of families in need of government child care assistance.[5] Second, it substantially understated the number of families already receiving support.

The report greatly overstated the number of children in need of child care aid because it:

- **Counted families earning up to 85 percent of the state median income among those "needing" child care aid.** According to this standard, families of four earning as much as $64,000 per year were defined as needing government child care assistance. Clearly, this procedure greatly overstates the number of families in need of assistance. It should come as no surprise that, by this standard, relatively few families "in need" of government child care subsidies actually received them. Numbers derived in this manner are obviously meaningless.
- **Categorized children up to age 12 who are in school as needing child care.** Children between the ages of 6 and 12 who are in school do not require child care during the school day. After school, just 8 percent of school-age children require child care facilities, as the rest are cared for by their parents, other relatives (often older siblings), neighbors, or after-school programs.[6] Although some low-income school-age children need after-school care or supervision during the summer, the cost of providing this care would clearly be less than the cost of providing full-time care for preschool children.
- **Counted children as needing child care assistance even if the parent worked only one hour per month.** The report categorized children as needing child care assistance even if the parent (or both parents in married families) worked or attended school only a few hours per month.[7] However, many parents who have part-time jobs work while their children are in school and would not need child care assistance. In some instances, parents who work only a few hours per month may need child care aid, but the needs of such part-time workers would obviously be far less than the needs of parents who are employed full-time.

3. Untitled statistical tables attached to press release from U.S. Department of Health and Human Services, December 6, 2000, at *http://www.hhs.gov/news/press/2000pres/20001206.html*.
4. Press release from U.S. Department of Health and Human Services, December 6, 2000, at *http://www.hhs.gov/news/press/2000pres/20001206.html*.
5. The report categorized a child as needing aid if the child met the federal eligibility standards for the Child Care and Development Fund. However, these eligibility standards were never intended to measure who is needy and who is not. They are simply the upper-income boundary for use of federal CCDF funds. The federal standard tells states that any child care assistance granted to families wealthier than the specified levels must come from a separate program and be paid for with the state's own funds.
6. *The 2000 Green Book*, Committee on Ways and Means, U.S. House of Representatives, October 2000, p. 581.
7. According to data provided by the U.S. Department of Health and Human Services as well as an Urban Institute memo, "How TRIM3 models eligibility for CCDF subsidies," at *http://www.acf.dhhs.gov/programs/ccb/research/datasymp/2000/gianmem.doc*.

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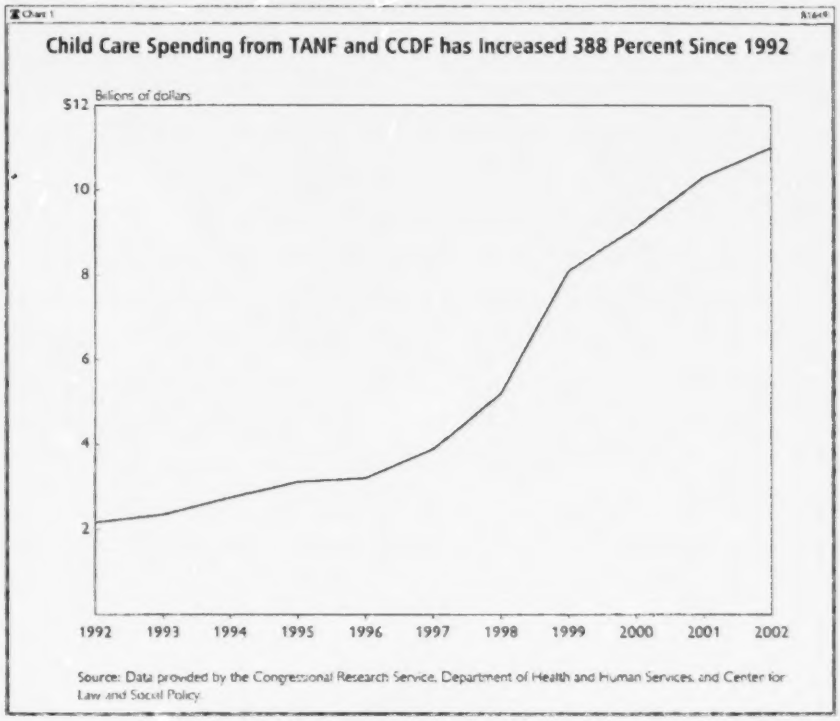
- **Counted children who are cared for by relatives and friends as needing child care assistance.** In 1995, just 34 percent of children who were five years old or younger and had working mothers were sent to child care centers or family child care providers. In contrast, 8 percent were cared for in a school or Head Start program, and 58 percent were cared for by the mother herself or by a relative or family friend.[8] Parents generally prefer care provided by relatives and friends. It is unrealistic to assume that all families using informal care either want or need formal subsidized child care.



Because of these errors, the Clinton Administration's report greatly overstated the number of children in need of child care subsidies. The report concluded that nearly 15 million children needed assistance, while the real figure may be closer to 4 million.

In addition to overestimating the number of children in need of child care assistance, the Clinton Administration's report also substantially undercounted the number of children who currently receive assistance. The report counted only the children who were receiving aid from the federal Child Care and Development Fund (CCDF). Other government programs that provide child care assistance were not considered in the calculation.

While most child care assistance is funded through the CCDF, the care for approximately 500,000 children is subsidized through separate TANF child care programs or the Social Services Block Grant (SSBG).[9] Additionally, more than 900,000 children per year are enrolled in Head Start programs, which are early education programs that serve a child care function by providing supervision to enrolled children for several hours per day. Children assisted by these programs were omitted from the count of those receiving aid.

Improved Estimates. Recognizing the flaws in the Clinton Administration's child care report, HHS recently used more realistic standards in a new calculation of the percentage of needy children receiving subsidies. The new research calculated the number of families potentially in need of child care assistance who (1) had a family income at or below the poverty level for a family of three; (2) participated in work activities for at least 20 hours per week; and (3) had children under school age.

Under this standard, a full 59 percent of all children potentially in need of assistance were found to be currently receiving aid.[10] Moreover, the 59 percent figure did not include either children enrolled in pre-kindergarten or Head Start programs or chil-

8. *2000 Green Book*, p. 577.

9. "Analysis of Child Care Needs and Enrollment," working paper provided by the U.S. Department of Health and Human Services in July 2002. Even this 500,000 figure is a conservative estimate that excludes state TANF funding.

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dren receiving informal care from friends and relatives. If these types of care were included in the tally, calculations would show that as much as 80 percent or 90 percent of needy children receive child care assistance or some type of informal care.[11]

MYTH: Government child care funding has been flat over the past decade.

FACT: Government child care funding increased 388 percent from 1992 to 2002.

Most government child care spending comes through two programs: the CCDF and TANF. Child care spending for these two programs (including their predecessors) rose from $2.2 billion during 1992 to $10.5 billion in 2002—an increase of 388 percent.[12] (See Charts 1 and 2 and Appendix.)

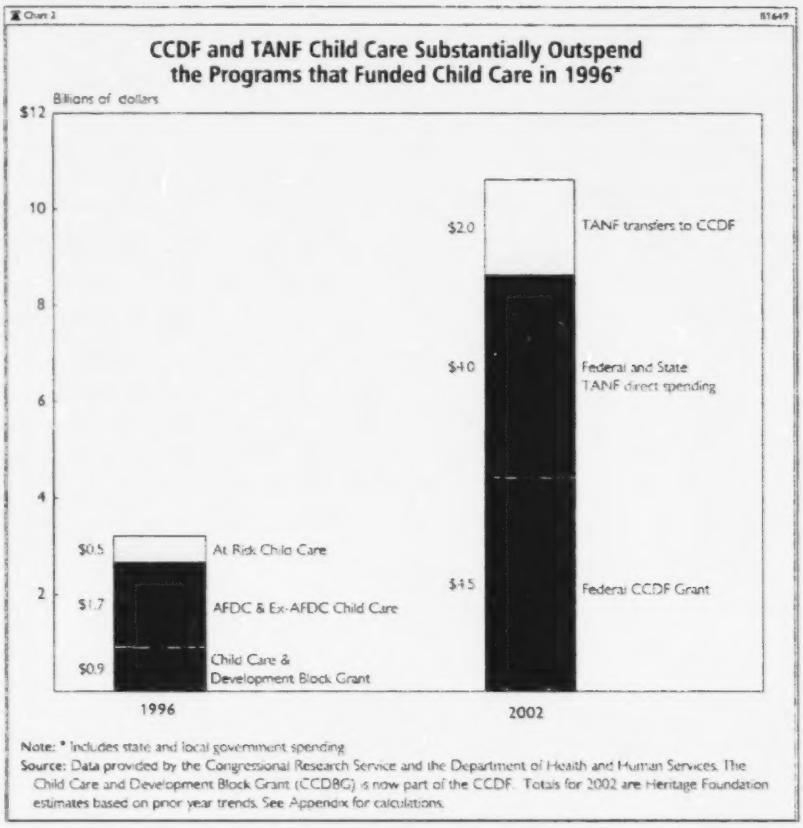
Chart 2
81649
CCDF and TANF Child Care Substantially Outspend the Programs that Funded Child Care in 1996*
Billions of dollars
$12
10
8
6
4
2
$0.5
At Risk Child Care
$1.7
AFDC & Ex-AFDC Child Care
$0.9
Child Care & Development Block Grant
$2.0
TANF transfers to CCDF
$4.0
Federal and State TANF direct spending
$4.5
Federal CCDF Grant
1996
2002
Note: * Includes state and local government spending.
Source: Data provided by the Congressional Research Service and the Department of Health and Human Services. The Child Care and Development Block Grant (CCDBG) is now part of the CCDF. Totals for 2002 are Heritage Foundation estimates based on prior year trends. See Appendix for calculations.

Child care spending has increased particularly rapidly since the enactment of welfare reform in 1996. At that time, spending was $3.2 billion.[13] Over the next six years, outlays more than tripled, rising (as noted) to $10.5 billion in 2002.

Moreover, total child care funding is not limited to the $10.5 billion annual child care investment by TANF and the CCDF. Several additional federal and state programs either subsidize child care directly or reduce the need for subsidized child care programs.

For example, the Head Start program spends over $6.5 billion per year to provide services for more than 900,000 children. In addition, 41 states spend $1.7 billion annually to provide over 725,000 children with pre-kindergarten programs, thereby reducing those families' demand for child care services.[14] Some $1.9 billion is spent annually on the Child and Adult Care Food Program; 97 percent of those aided by this program are children in Head Start or child care centers receiving subsidized meals.[15] The 27 states with child care tax breaks also assist resident parents with child care expenses.[16]

10. *Ibid.*

11. According to "Analysis of Child Care Needs and Enrollment," poor families using non-parental care state that relatives and siblings are by far the most common caretakers of their young children. Using that information, it can be assumed that the vast majority of the final 41 percent of needy eligible families not enrolling in child care programs fall into this category.

12. See Appendix for calculations.

13. See Appendix for calculations.

14. Karen Schulman, Helen Blank, and Danielle Ewen, *Seeds of Success, State Prekindergarten Initiatives, 1998–1999*, Children's Defense Fund, September 1999.

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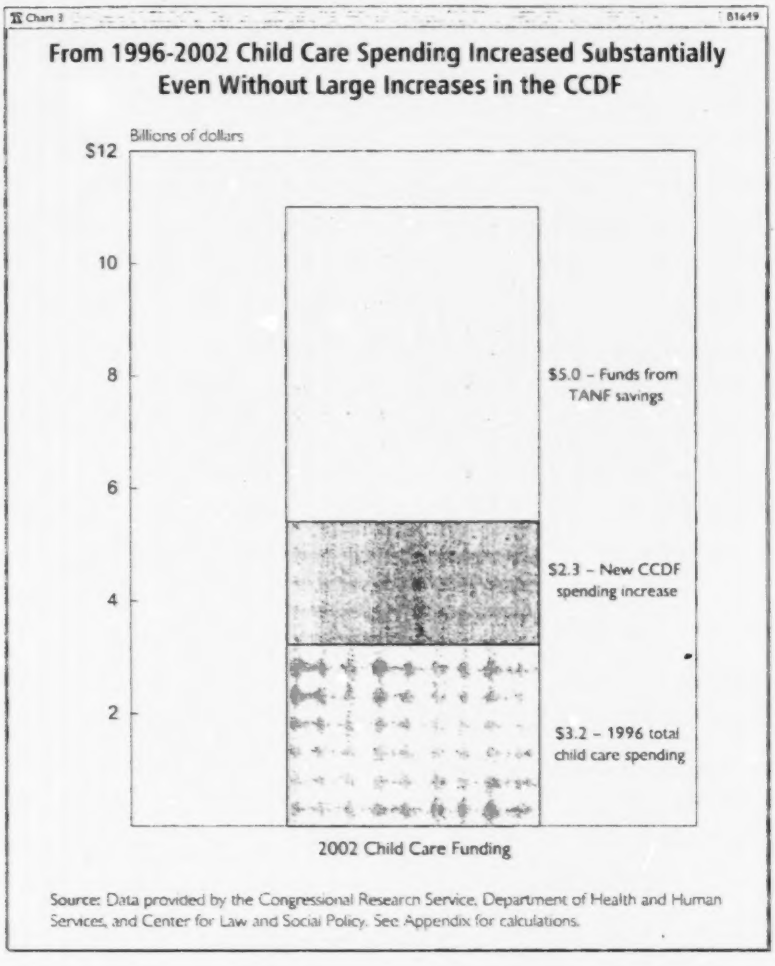
Chart 3
B1649
From 1996-2002 Child Care Spending Increased Substantially Even Without Large Increases in the CCDF
Billions of dollars
$12
10
8
6
4
2
$5.0 – Funds from TANF savings
$2.3 – New CCDF spending increase
$3.2 – 1996 total child care spending
2002 Child Care Funding
Source: Data provided by the Congressional Research Service, Department of Health and Human Services, and Center for Law and Social Policy. See Appendix for calculations.

MYTH: The only way to increase child care spending is for Congress to appropriate new funds and increase costs for the taxpayer.

FACT: Child care spending has increased dramatically since 1996, and two-thirds of new child care spending has come from savings in the TANF program due to welfare reform.

Advocates of increased spending for child care often assume that any increase in government funding for child care must entail congressional authorization and appropriation of new funding. For example, during the debate over TANF reauthorization in the House of Representatives last year, liberals universally argued that if Congress wanted more welfare recipients to work, it would have to authorize and appropriate additional child care spending.

On the surface, this argument may appear plausible. Clearly, if more single mothers move off welfare and into the labor market, the government will need to spend more on child care. However, experience demonstrates that increased child care spending does not require new congressional appropriations. Instead, most increases in government child care spending have come and will continue to come from the fiscal savings generated by welfare reform itself.

For example, in 1996 when Congress passed welfare reform, the federal and state governments together spent $3.2 billion on child care. By 2002, child care spending had risen to $10.5 billion—an increase of $7.3 billion annually.[17] However, as Chart 3 shows, only $2.3 billion of this spending

Table 1 shows that these programs provided an additional $16 billion for child care and related services in 2002. However, the dependent care tax credit and dependent care assistance affect mainly middle-income families, and pre-kindergarten programs serve children at all income levels. The rest of the programs shown in Table 1 are targeted mainly toward lower-income families. Altogether, some $20 billion of the spending shown in Table 1 is focused on poor and lower-income families.

15. The U.S. Department of Agriculture reports that 2.6 million children receive assistance from the Child and Adult Care Food Program. See *http://www.fns.usda.gov/cnd/care/cacfp/cacfphome.htm*.

16. Danielle Ewen, Helen Blank, Katherine Hart, and Karen Schulman, *State Developments in Child Care, Education, and School-Age Care 2001*, Children's Defense Fund, March 2002, pp. 55–56.

17. See Appendix for calculations.

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Table 1 B1649

2002 Direct and Indirect Child Care Funding Provided by Federal and State Government (in $millions)

PROGRAM	DESCRIPTION	2002 SPENDING
CCDF–TANF	The most common measure of direct child care spending, a federal–state partnership to subsidize child care for low-income and middle-income families.	$10,539
Head Start	Comprehensive early childhood education and development services for over 900,000 low-income children.	$6,538
Child- and Adult-Care Food	Federal food assistance for 2.6 million children in child care and Head Start centers. (Over 97 percent of recipients are children).	$1,878
Pre-Kindergarten Programs	State-level programs serving over 725,000 children.	$1,700
21st Century Community Learning Centers	Grants to schools for after-school, weekend, and summer activities for young children.	$1,000
Individuals with Disabilities Education Act–Infant and Preschool Grants	Funding for infant and pre-school disabled children.	$807
Even Start	Early education for children up to age 7.	$250
Social Services Block Grant	Block grant for social services at state's discretion. Approximately 13 percent of this $1.7 billion grant is used for child care.	$221
Other	Mostly education-based programs for young children and campus-based child care for parents in post-secondary education.	$66
Dependent Care Tax Credit	Tax credit for child care expenses incurred as a result of a parent working. (Used mostly by middle-income families.)	$2,500
Dependent Care Assistance	Allows an employee to exclude an employer's child care contributions for income tax purposes. (Used mostly by middle-income families.)	$600
TOTAL		$26,099

Source: Data provided by Melinda Gish, "Child Care Issues in the 107th Congress," Congressional Research Service, July 2002, and supplemented with state pre-kindergarten funding data from Children's Defense Fund, and with CCDF/TANF funding data from Department of Health and Human Services and Center for Law and Social Policy.

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increase came from new funding that was authorized and appropriated by Congress.[18] The remaining $5.0 billion came from savings in TANF funding that had been redirected into child care subsidies.

Overall, in the six years since Congress passed welfare reform, child care spending has increased by $27.3 billion, some 74 percent of which ($20.3 billion) came from TANF savings. By contrast, only 26 percent ($7.0 billion) came from new congressional appropriations.[19]

How did welfare reform generate savings in the TANF program that could be used to pay for child care? The mechanism was simple: The reform required an increasing share of TANF recipients to obtain jobs or prepare for work. These work requirements led to a dramatic reduction in TANF caseloads as recipients left welfare and entered employment: Since 1996, the TANF caseload has been cut in half, and as the TANF caseloads have fallen, the amount spent by states on monthly cash TANF payments has decreased proportionately. States were permitted to retain unspent TANF funds and redirect them to other purposes, including child care subsidies. The result has been an increase of over $20 billion in child care spending without any increased cost to the taxpayer.

Contrary to claims made by opponents of welfare reform, new federal appropriations for child care are not needed to intensify or expand reform. If TANF's work requirements are strengthened, its caseload will fall again. This will generate even larger funding surpluses, which can be converted into increased child care subsidies.

MYTH: States use their discretion to set excessively strict eligibility standards, excluding millions of poor families from child care subsidies.

FACT: The average state covers working families with incomes up to 192 percent of the federal poverty level.

Members of Congress have consistently clung to a belief that states use strict eligibility standards to exclude poor working families from child care assistance, but the numbers tell a different story. Eligibility standards for CCDF aid for a family of three currently range from a low of $15,260 in New Mexico to a high of $47,586 in Connecticut. The average state sets an upper eligibility standard at 192 percent of the federal poverty level, or $29,299 for a family of three,[20] and 21 states grant eligibility to families with incomes at 200 percent of the federal poverty level or higher.[21]

In addition to generous income standards, the other child care eligibility requirements that are unrelated to income are designed to be inclusive. Parents need only be engaged in some work, education, or training activities and have a child under the age of 13 (19 for disabled children). The family does not need to be a TANF participant, and TANF recipients need not count child care assistance against the program's five-year federal time limit for receiving support.

18. In 1996, three programs were combined to form the CCDF; spending was increased from $2.2 billion to $4.5 billion in 2002, a $2.3 billion increase. See Appendix for more details.

19. See Appendix for calculations.

20. Calculated by The Heritage Foundation using Ewen, Blank, Hart, and Schulman, *State Developments in Child Care, Education, and School-Age Care 2001*, pp. 25–31, and updated using Danielle Ewen and Katherine Hart, "State Budget Cuts Create a Growing Child Care Crisis for Low-Income Working Families," Children's Defense Fund, March 2003. The 2003 federal poverty line for a family of three is $15,260.

21. Even those generous eligibility standards do not tell the whole story. Eleven states also have "extended eligibility" programs, whereby families can continue receiving assistance even after their incomes increase beyond the initial eligibility level. For example, in Massachusetts, a family of three can qualify for child care assistance if its income falls below $28,968 and, once in the system, may receive assistance until its income reaches $49,248. Many of these extended eligibility programs, which were designed to maintain assistance to families completing the transition to self-sufficiency, effectively subsidize middle-class families at the expense of working-class taxpayers. See Ewen, Blank, Hart, and Schulman, *State Developments in Child Care, Education, and School-Age Care 2001*, pp. 25–31.

MYTH: Eligible poor families face lengthy waiting lists for child care assistance.

FACT: Nearly every eligible applicant with an income below the federal poverty line receives assistance.

Some critics of current child care policies, while acknowledging that states have liberal eligibility standards, assert that never-ending waiting lists freeze most eligible families out of child care assistance. However, two separate analyses that examined caseloads in 1999 and 2001 found that:

- 100 percent of all eligible TANF families who applied for child care subsidies were served,[22] and
- 100 percent of all eligible families leaving TANF who applied for child care subsidies were served, often for at least the following year.[23]

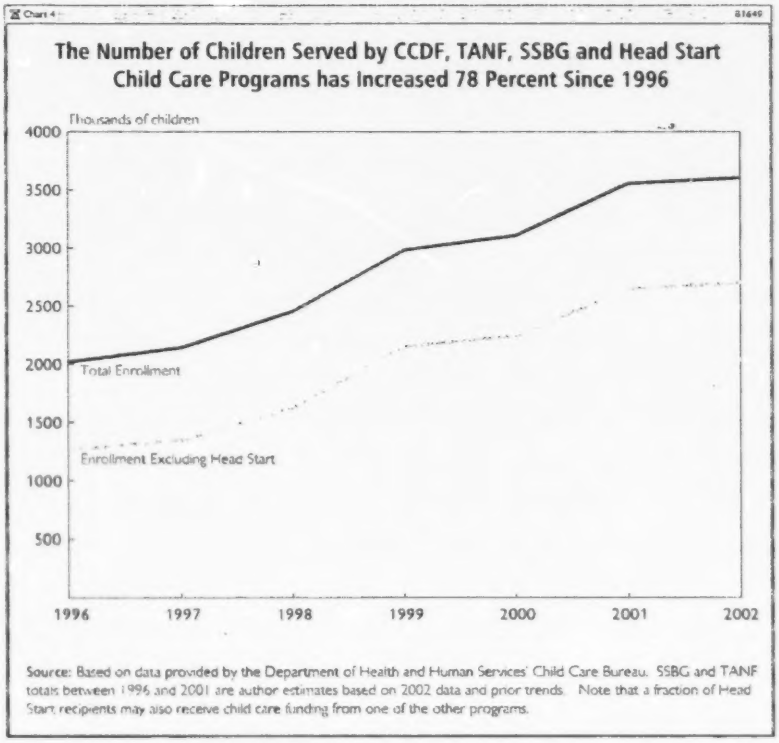
Chart 4
81649
The Number of Children Served by CCDF, TANF, SSBG and Head Start Child Care Programs has Increased 78 Percent Since 1996
Thousands of children
4000
3500
3000
2500
2000
1500
1000
500
Total Enrollment
Enrollment Excluding Head Start
1996
1997
1998
1999
2000
2001
2002
Source: Based on data provided by the Department of Health and Human Services' Child Care Bureau. SSBG and TANF totals between 1996 and 2001 are author estimates based on 2002 data and prior trends. Note that a fraction of Head Start recipients may also receive child care funding from one of the other programs.

Even eligible non-TANF families are able to receive immediate child care assistance. Currently, 29 states are able to serve 100 percent of the eligible non-TANF families that apply for child care assistance. This includes families earning more than $30,000—and, in some cases, $40,000—annually.[24] That leaves 22 states (including the District of Columbia) that have either created waiting lists or frozen new non-TANF enrollment in at least one county. However, because most of the states with waiting lists have relatively high eligibility standards, it is likely that most families on waiting lists are middle-income rather than very poor.

In addition, analysts have suggested that some shortages could be remedied by simply shifting excess child care funds from other counties or by shifting excess TANF child care funds to eligible non-TANF families.[25] Most states have ample TANF funds that are spent on nonessential services and could be used to provide more child care if needed.

Overall, generous eligibility standards and an ability to serve increasing numbers of eligible families have allowed the number of children served to increase from 2 million in 1996 to 3.6 million in 2002.[26] (See Chart 4.)

22. Based on a 1999 sample of 17 states from Abt Associates, *National Study of Child Care for Low-Income Families: State and Community Substudy Interim Report*, prepared for the U.S. Department of Health and Human Services, November 2000, pp. 44–46.
23. *Ibid.* The vast majority of sampled states enroll TANF leavers in transitional child care (TCC) programs to ensure continued assistance, but even states without formal TCC programs were able to provide at least temporary assistance to all eligible TANF leavers that applied. Although Indiana and Virginia reported some difficulty providing TCC to all eligible TANF leavers, they did not need to waitlist any eligible families until after their 12-month guarantee for TCC had ended.
24. Ewen and Hart, "State Budget Cuts Create a Growing Child Care Crisis for Low-Income Working Families."
25. Abt Associates, *National Study of Child Care for Low-Income Families: State and Community Substudy Interim Report*, p. 40.

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When examining the number of eligible children receiving subsidies, it is important to note that millions of eligible families who know about child care programs choose not to enroll their children in them. Child care caseworkers interviewed by HHS suggest that families have sufficient knowledge of these programs, and surveys show that as many as 90 percent of TANF recipients report knowledge of their own child care eligibility.[27]

Enrollment of children in school or a Head Start program, or informal child care arrangements with immediate family, neighbors, or other parents, often lead families to turn down public child care assistance. Government programs should not be considered failures simply because parents choose to use other child care arrangements.

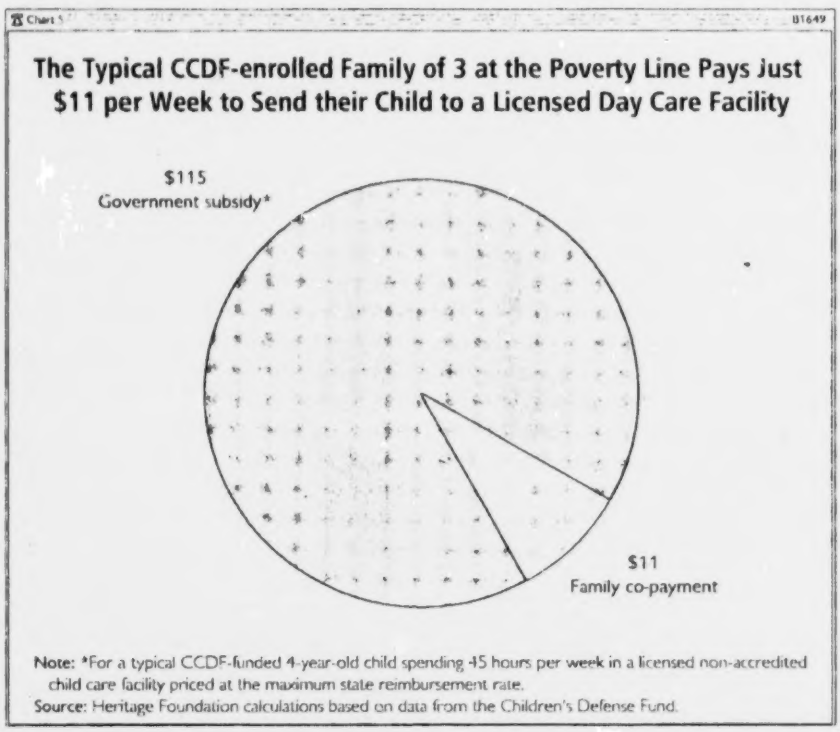
Chart 5
B1649
The Typical CCDF-enrolled Family of 3 at the Poverty Line Pays Just $11 per Week to Send their Child to a Licensed Day Care Facility
$115
Government subsidy*
$11
Family co-payment
Note: *For a typical CCDF-funded 4-year-old child spending 45 hours per week in a licensed non-accredited child care facility priced at the maximum state reimbursement rate.
Source: Heritage Foundation calculations based on data from the Children's Defense Fund.

MYTH: Child care subsidies are too small to make child care affordable.

FACT: The typical subsidized family at the poverty level pays just $11 per week for their child's care.

This myth is yet another example of the use of an outdated statistic that does not reflect current realities. A 1999 HHS study reported that families in poverty with preschool children spend 18 percent of their income on child care, but was based on data from 1993 when child care funding was one-fifth of its current level.[28]

More recent studies have surveyed the co-payment policies and government rates for all 50 states to determine how much CCDF-enrolled families were paying for child care in 2003. The studies found that the weekly co-payment for an average three-person family with an income at the federal poverty level is just $11 per child. To pay the child's $126 weekly bill to the child care facility, the local CCDF-funded program funds the other $115.[29] (See Chart 5.) On an annual basis, the CCDF pays $6,000 for the average enrolled child at the federal poverty level, while the family contributes just $567, or 4 percent of their gross income.[30] Clearly, the story told by these updated statistics is very different from the one told by the old 1993 data.

At just $11 per week, it should come as no surprise that state and local child care offices report lit-

26. This includes funding for TANF, CCDF, SSBG, and Head Start, expressed in 2002 dollars. Data based on enrollment estimates assumed in President Bush's 2003 budget request as provided by the U.S. Department of Health and Human Services Child Care Bureau. SSBG and TANF totals between 1996 and 2001 are author estimates based on 2002 data and prior trends. Note that a fraction of Head Start recipients may also receive child care funding from another program.

27. Abt Associates, *National Study of Child Care for Low-Income Families: State and Community Substudy Interim Report*, p. 47.

28. "Access to Child Care for Low-Income Working Families," U.S. Department of Health and Human Services, 1999, at *http://www.acf.dhhs.gov/programs/ccb/research/ccreport/ccreport.htm*.

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tle difficulty in collecting these small co-payments and assert that their client families do not consider them a significant financial burden.[31] Furthermore, because most states base co-payment rates more on family income than on child care facility costs, families are insulated from increasing prices or from being forced to choose the least expensive care.

CONCLUSION

One of the goals of the 1996 welfare reform was to move single mothers off welfare and into employment. Since the enactment of reform, welfare caseloads have plummeted, employment of single mothers has soared, and the poverty rate of single mothers has dropped to the lowest point in America's history.

Clearly, welfare reform and child care are linked. If low-skilled single mothers are moved into the labor force, child care assistance must be provided. But much of the public policy debate concerning child care is misleading. Government spending on child care has more than tripled since 1996. Most states now run broad child care subsidy programs that support families with incomes well above poverty.

If welfare reform is to continue and expand, additional funding for child care must be provided. However, as in the past, most of this funding should come from savings that reform has generated in the TANF program rather than from new congressional appropriations.

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29. Government subsidy amounts are calculated as the typical subsidy for a CCDF-funded 4-year-old child spending 45 hours per week in a licensed non-accredited child care facility priced at the maximum state reimbursement rate. Heritage Foundation calculations based on data from Ewen, Blank, Hart, and Schulman, *State Developments in Child Care, Education, and School-Age Care 2001*, pp. 35–48, and updated using Ewen and Hart, "State Budget Cuts Create a Growing Child Care Crisis for Low-Income Working Families."

30. *Ibid.*

31. Abt Associates, *National Study of Child Care for Low-Income Families: State and Community Substudy Interim Report*, p. 51.

APPENDIX

FUNDING SOURCES OF THE CHILD CARE AND DEVELOPMENT FUND

As the primary source of child care expenditures, the CCDF receives funding from several different sources:

- The federal CCDF's discretionary and entitlement accounts, which are formula-based block grants to states;
- State maintenance-of-effort (MOE) child care spending, which is the minimum amount of their own money states must spend in order to receive federal support;
- The federal CCDF matching account, which states can access if they are willing to spend additional child care dollars of their own beyond the MOE requirement;
- State spending beyond the MOE requirement in order to receive additional federal CCDBG matching funds; and
- Transfers of up to 30 percent of their TANF block grant that states are permitted to make to the CCDF.

Most states also spend a portion of their TANF block grant directly on child care without transferring it to the CCDF.

Table 2 B1649

Breakdown of all TANF and CCDF Child Care Spending from 1992-2002

	Federal			State		Federal				State	TOTAL
Year	CCDBG	AFDC & Ex-AFDC Child Care	At-Risk Child Care	AFDC & Ex-AFDC Child Care	At-Risk Child Care	CCDF–Discretionary	CCDF–Entitlement	TANF Transfer to CCDF	Federal TANF Direct Spending	State TANF & Maintenance-of-Effort	
1992	$825	$438	$321	$317	$259						$2,160
1993	893	583	258	420	197						2,351
1994	893	752	302	553	245						2,745
1995	935	950	286	725	224						3,120
1996	933	981	299	758	237						3,208
1997						$909	$1,398	$193	$15	$1,500	4,015
1998						1,094	2,028	378	247	1,548	5,295
1999						1,032	2,254	1,314	747	2,000	7,347
2000						1,070	2,237	1,793	1,460	2,600	9,160
2001						1,376	2,341	2,183	1,660	2,640	10,200
2002						2,174	2,365	2,000	1,500	2,500	10,539

Source: Office of Management and Budget, Congressional Research Service, and Center for Law and Social Policy. CCDF spending totals are defined as federal outlays. It is assumed that states spent the vast majority of these federal funds the same year they received them. The 2002 TANF spending breakdown is an initial approximation. All amounts are in millions of dollars.

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CLASSIFYING TANF AND CCDF SPENDING

Throughout this paper, child care spending increases since 1996 have been classified as coming from TANF savings or from federal CCDF spending increases. To calculate these expenditures, Table 3 reclassifies each program from Table 2 as follows:

The three 1996 federal programs were folded into the federal CCDF, and their spending levels are therefore compared with the federally funded CCDF–discretionary and CCDF–entitlement expenditures. Since 1996, these expenditures have increased by $2.3 billion (as shown in Chart 3).

The two 1996 state programs were folded into TANF, and their spending levels are therefore compared with TANF child care spending, whether the money was spent directly on TANF child care, transferred to the CCDF, or raised by states to fund their portion of TANF. Since 1996, these expenditures have increased by $5.0 billion (as shown in Chart 3).

Table 3 B1649

Child Care Spending With Programs Classified Between CCDF and TANF

Year	Pre-CCDF and CCDF	Pre-TANF and TANF	TOTAL
1992	1,584	576	2,160
1993	1,734	617	2,351
1994	1,947	798	2,745
1995	2,171	949	3,120
1996	2,213	995	3,208
1997	2,307	1,708	4,015
1998	3,122	2,173	5,295
1999	3,286	4,061	7,347
2000	3,307	5,853	9,160
2001	3,717	6,483	10,200
2002	4,539	6,000	10,539

Source: Heritage Foundation calculations based on data from Office of Management and Budget, Congressional Research Service, and Center for Law and Social Policy. The 2002 TANF spending breakdown is an initial approximation. All amounts are in millions of dollars.

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